

Message Text

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TREASURY PASS NATHAN GORDON AND MARCIA FIELD

E.O. 11652: N/A

TAGS: EFIN EINV YO

SUBJECT: US-YUGOSLAV TREATY ON DOUBLE TAXATION: VISIT
OF PROFESSOR PAUL JONAS

1. SUMMARY. VISITING BELGRADE IN CONNECTION WITH
TREASURY STUDY ON "TAXATION OF WESTERN ENTERPRISE IN
SELECTED EUROPEAN SOCIALIST COUNTRIES," PROFESSOR PAUL
JONAS (UNIVERSITY OF NEW MEXICO), ACCOMPANIED BY
ECONOMIC OFFICER, CONFERRED WITH YUGOSLAV ASSISTANT
SECRETARY FOR FINANCE BOZEDAR BRAOVICH AND COUNSELOR
MIODRAG ARSIC. END OF SUMMARY.

2. BRAOVICH STATED GOY STILL STUDYING U.S. DRAFT FOR
DOUBLE TAXATION TREATY DATED AUGUST 14, 1974, WHICH
WAS TRANSMITTED THROUGH YUGOSLAV EMBASSY, WASHINGTON.

3. MOST DIFFICULT ISSUES, HE COMMENTED, ARE (A) RECON-
CILIATION OF LIBERAL TAX INCENTIVES BEING OFFERED TO
AMERICAN INVESTORS IN MOST REGIONS OF YUGOSLAVIA WITH
COMPARATIVELY HIGH CORPORATE TAX RATES UNDER U.S. INTERNAL
REVENUE CODE, AND (2) TREATMENT OF DIVIDENDS.

4. ON TAX RATE ISSUE, JONAS POINTED OUT THAT--WITHOUT
DOUBLE TAXATION TREATY AND ACCOMPANYING ADJUSTMENTS IN
YUGOSLAV TAXATION SYSTEM--U.S. INVESTORS APPARENTLY GAIN
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VERY LITTLE BENEFIT FROM GENEROUS TAX RATES BEING OFFERED

BY VARIOUS REGIONS OF YUGOSLAVIA. LOW TAXES THESE INVEST-
ORS PAY IN YUGOSLAVIA SIMPLY MEAN CORRESPONDINGLY HIGHER
TAXES TO BE PAID IN U.S., AND SO YUGOSLAV TAX SYSTEM
FAILS TO ACHIEVE INTENT OF SERVING AS AN INDUCEMENT TO
INVESTMENT.

5. APPROPRIATE YUGOSLAV DEVELOPMENT AND FISCAL POLICY--
BRAOVICH AND JONAS AGREED--MIGHT BE TO MAINTAIN PROFIT
TAX AT CURRENT BASIC 35 PERCENT WITHHOLDING RATE, BUT
TO OFFER "SPECIAL TAX CREDITS," (WITH EXTRA BENEFITS IN
CASE OF REINVESTMENT). PROVISION IN DOUBLE TAXATION
TREATY WOULD ASSURE THAT AMERICAN INVESTORS WOULD RETAIN
BENEFIT FROM YUGOSLAV SPECIAL TAX CREDITS IN THEIR U.S.
TAX PAYMENTS. COMPLICATING FACTOR--BRAOVICH POINTED OUT--
IS HIGHLY DECENTRALIZED YUGOSLAV TAX SYSTEM, BUT HE ADDED
THAT GOY WOULD WORK FOR FLEXIBLE IMAGINATIVE APPROACH,
PERHAPS THROUGH MEANS OF "SOCIAL COMPACTS" WITH REPUBLICS.

6. BRAOVICH BRIEFED JONAS ON REVISIONS IN TAX SYSTEM
AS RESULT OF 1974 CONSTITUTION, AND EMPHASIZED ITS
STRICTLY NONDISCRIMINATORY CHARACTER.

7. YUGOSLAVS EXPECT TO BE READY TO RESUME DISCUSSIONS
WITH TREASURY IN APRIL 1975.

8. JONAS ALSO DISCUSSED TAXATION AND OTHER ASPECTS OF
JOINT VENTURE LEGISLATION WITH RADOJE PRICA, LEGAL
COUNSELOR, INTERNATIONAL INVESTMENT CORPORATION (IICY)
AND DR. MIODRAG SUKIJASOVIC, INSTITUTE FOR INTERNATIONAL
POLITICS AND ECONOMICS. HE PLANS TO MEET WITH GORDON
AND MISS FIELD IN WASHINGTON IN EARLY FEBRUARY.

9. COMMENT: SIGNING NEXT WEEK OF LETTER OF UNDERSTANDING
CONCERNING 360 MILLION DOLLAR DOW CHEMICAL/INA PROJECT;
NEGOTIATIONS CONCERNING OTHER JOINT INVESTMENTS, AND
EXPECTED ARRIVAL OF LARGE NUMBER WESTINGHOUSE PERSONNEL
TO WORK ON KRSKO PROJECT SUGGEST NEED FOR EARLY CONCLUSION
DOUBLE-TAXATION TREATY.

10. ACTION REQUESTED: FOR EXPEDITIOUS HANDLING AND
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USEFUL FOLLOW-UP, SUGGEST TREASURY ROUTE PROPOSALS AND
OTHER CORRESPONDENCE THROUGH AMERICAN EMBASSY, BELGRADE.
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